Guinness Global Equity Income Fund

A high conviction equity fund managed by Dr. Ian Mortimer, CFA, and Matthew Page, CFA, in accordance with their intelligent investment process for high quality income portfolios.

INVESTMENT COMMENTARY - June 2013

Fund size (31.05.13) **£20.5m**

Aim

We don't chase yield, we want capital and dividend growth

Our aim is long-term capital growth and a steady rising dividend stream, balanced with a yield of 3-4%.

Process

Quality before yield

We buy companies that have generated at least 10% Cash Flow Return on Investment every year for 10 years.

"It's a rare achievement for a company to meet our investment criteria – 10% cash flow return on investment every year for ten years is a mark of genuine quality. That's where our portfolio starts – persistent cash generation before yield."

Performance

May continued the strong global equity rally we have seen since the start of the year, albeit with markets giving up in the final week some of the gains seen earlier in the month. The Fund generated a total return of +3.92% (in GBP) in May, compared to its MSCI World Index benchmark return of +2.70%. The Fund has returned +22.28% year-to-date versus the Index return of +19.19%.

L-i-f-e-g-o-e-s-o-n

The so-called 'risk rally' began to stall in May. Japan gave up some of the strong gains seen since the Prime Minister Shinzo Abe stepped in to reflate the Japanese economy earlier in the year, and emerging markets in general were weak. The US remained a bright spot, however, despite its retreat in the last week of the month. This still leaves the MSCI World Index up +19.36% since the start of the year, and up +120.50% since the market bottom on 9th March 2009. On an annualised basis this equates to a return of 20.55% per year since the market turned following the financial crisis – a generous return in anyone's book. Within this recovery there have been several corrections on the way but the march has always been ever higher. Investors have also become used to the 'risk-on/risk-off' mind-set and appear to have developed an unhealthy appetite for central bank liquidity. This is best illustrated in the bizarre 'bad-is-good, good-is-bad' analysis of US economic data points with regard to how the Federal Reserve may react; good jobs numbers one month, for example, will be followed by a drop in US equity prices as investors believe improved employment rates will encourage the Fed to slow their bond buying sooner.

The market turn at the end of the month reflected investors' concern over the removal of liquidity from the market, given added focus in this instance by the April/May Federal Open Market Committee meeting minutes and the May 22 testimony of Fed chairman Bernanke to Capitol Hill. The uncertainty surrounded the prospect and timing of any potential tapering of the Fed's $85 billion in monthly bond purchases. Various market participants inferred the Fed could even start to reduce their bond buying as early as September this year. In reaction, treasury yields moved higher and some high dividend-yielding equities moved lower, as implied future demand for these bond-like securities waned with the prospect of a return to more 'normal' bond yields. The worst performing sectors in the S&P500 over the month were utilities (down 6.84%) and telecoms (down 5.13%), which also have the highest dividend yields of the ten industry sectors at 4.2% and 5.3% respectively.

What does this mean for us?

What do we surmise from these market movements and how have we changed the Fund's portfolio in response? In fact we made no changes to the portfolio in the month and instead continue to prefer to take a long view rather than try and time the market by dialling up or down the 'risk' in the portfolio. What May has shown, however, is the danger of chasing yield. As markets have moved upwards over the last few years many companies' dividend yields have become depressed as their dividend growth (even if impressive) has often not matched that of their share price appreciation. In this scenario some investors can succumb to the temptation of buying lower quality securities to satisfy their search for yield. With markets making new highs every week this investment philosophy can reap great rewards. If you are left holding these lower quality assets when the music stops, however, then they are often the first and hardest fallers.

Our approach is to focus on quality companies first and foremost. What we are interested in are the cash flows a company can generate in the future and what those cash flows are worth today. If we can get confidence in the ability of that company to achieve those cash flows in a variety of economic conditions (both good and bad) then we can remain long-term holders, whatever the vagaries of the market throws at us.

Whether we can buy these types of quality company cheaply is another matter. The standout opportunities available when we launched the Fund at the end of 2010 are not as prevalent today as the market has appreciated so much since then, which makes the job of finding good quality, cheap companies that much harder. What we note, however, is that the market often emphasises returns on a very short timescale – whether the next quarterly results are above or below consensus, or the number of widgets sold compared to this time last year has increased or not. This means good companies which are out of favour can become mispriced; the market concentrates on the next six months and fails to adequately recognise the value of the cash flows the company can generate in two, three or even five years hence, when whatever cloud hanging over the company has dispersed. We classify many of the companies held in the Fund today under this description of good companies that are currently unloved – Microsoft, ICAP, AstraZeneca, Pfizer, Northrup Grumman to name just a few.

So although we find the ebb and flow of the markets fascinating, we will continue to concentrate on finding quality companies with robust cash flows, which offer good value and a reasonable and growing dividend. We believe that, if markets remain focussed on the short term, there will continue to be ample opportunities for the patient long-term investor.

Dr. Ian Mortimer & Matthew Page

Co-managers,
Guinness Global Equity Income Fund

June 2013

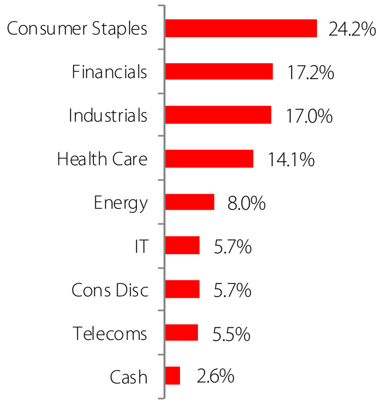
PORTFOLIO (31.5.13)

Fund top 10 holdings

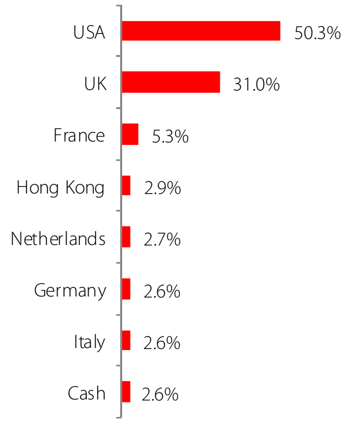
ICAP	3.3%
Microsoft	3.1%
Northrop Grumman	3.1%
Meggitt	3.0%
Aberdeen Asset Management	3.0%
Merck & Co	3.0%
AstraZeneca	2.9%
Imperial Tobacco	2.9%
Aflac	2.9%
H & R Block	2.9%

% of Fund in top 10	30.1%
Total number of stocks in Fund	35
AUM	$30m

Sector analysis



Geographic allocation



PERFORMANCE

12 months to month end:	May '09	May '10	May '11	May '12	May '13
Guinness Global Equity Income Fund	-	-	- -	2.4	28.5
MSCI World Index	-20.1	26.1	13.1	-4.9	29.7
IMA Global Equity Income sector average	-18.9	22.3	16.2	-4.4	28.8

Cumulative % total return

31/05/2013	1 month	3 months	6 months	1 year	From launch
Guinness Global Equity Income Fund	3.9	9.0	20.4	28.5	30.6
MSCI World Index	2.7	5.7	19.7	29.7	25.6
IMA Global Equity Income sector average	2.0	5.6	17.8	28.8	26.1

Annualised % total return from launch

	31/05/2013
Guinness Global Equity Income Fund	**11.67%**
MSCI World Index	**9.89%**
IMA Global Equity Income sector average	**10.07%**

Risk analysis - Annualised, weekly, from launch on 31.12.10

31/05/2013	Index	Sector	Fund
Alpha	0	2.61	3.72
Beta	1	0.75	0.77
Information ratio	0	0.05	0.31
Maximum drawdown	-18.26	-15.50	-16.40
R squared	1	0.81	0.90
Tracking error	0	6.75	5.31
Volatility	15.23	12.73	12.35

Past performance should not be taken as an indicator of future performance. The value of this investment and any income arising from it can fall as well as rise as a result of market and currency fluctuations.

Source: Financial Express, bid to bid, total return, C class shares, GBP. Launch date: 31.12.10.

IMPORTANT INFORMATION

This report is primarily designed to inform you about the Guinness Global Equity Income Fund, including recent activity and performance. For regulatory purposes it falls within the legal definition of a financial promotion. Please therefore note the risk warnings below and the following statements: it contains facts relating to equity markets and our own interpretation. Any investment decision should take account of the subjectivity of the comments contained in the report. It is for information only and all the information contained in it is believed to be reliable but may be inaccurate or incomplete; any opinions stated are honestly held at the time of writing, but are not guaranteed. The content of the document should not therefore be relied upon. It should not be taken as a recommendation to buy or sell individual securities.

The Guinness Global Equity Income Fund is an equity fund. Investors should be willing and able to assume the risks of equity investing. The value of the Fund's portfolio changes daily and can be affected by changes in currencies, interest rates, general market conditions and other political, social and economic developments, as well as specific matters relating to the companies in whose securities the Fund invests. Investment in the Fund carries with it a degree of risk and investors should read the risk factors section in the prospectus before investing. Shareholders should note that all or part of the fees and expenses will be charged to the capital of the Fund. This will have the effect of lowering the capital value of your investment.

The full Fund documentation contains more complete and detailed information of risk, fees, charges and expenses that are to be borne by an investor. The documentation should be read carefully before investing. The full documentation needed to make an investment, including the Prospectus, the KIID and the Application Form are available, free of charge, from the Manager: Capita Financial Managers (Ireland) Limited, 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland or the Promoter and Investment Manager: Guinness Asset Management Ltd, 14 Queen Anne's Gate, London SW1H 9AA. **Documentation is also available from the website guinnessfunds.com.** This document should not be distributed to Retail Clients who are resident in countries where the Fund is not registered for sale or in any other circumstances where its distribution is not authorised or is unlawful. THIS INVESTMENT IS NOT FOR SALE TO U.S. PERSONS.

The Guinness Global Equity Income Fund is a sub-fund of Guinness Asset Management Funds PLC (the "Company"), an open-ended umbrella-type investment company, incorporated in Ireland and authorised and supervised by the Central Bank of Ireland. The Fund has been approved by the Financial Conduct Authority for sale in the UK. The Company and the Fund have been recognised in the UK by the FSA pursuant to section 264 of the FSMA. Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority.

Telephone calls to Guinness Asset Management may be recorded.

The prospectus for Switzerland, the simplified prospectus for Switzerland, the articles of association, the annual and semi-annual reports, as well as the list of the buying and selling transactions can be obtained free of charge from the representative in Switzerland, Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva, Switzerland, Tel. +41 22 705 11 77, Fax: + 41 22 705 11 79, www.carnegie-fund-services.ch. The paying agent is Banque Cantonale de Genève, 17 Quai de l'Ile, 1204 Geneva, Switzerland.

GLOSSARY

Alpha
Alpha is a measure of a fund's over or underperformance by comparison to its benchmark. It represents the return of the fund when the benchmark is assumed to have a return of zero, and thus indicates the extra value that the manager's activities have contributed.

Beta
Beta is a statistical estimate of a fund's volatility by comparison to that of its benchmark, i.e. how sensitive the fund is to movements in the section of the market that comprises the benchmark. A fund with a Beta close to 1 will move generally in line with the benchmark. Higher than 1 and the fund is more volatile than the benchmark.

Information Ratio
An assessment of the degree to which a manager uses skill and knowledge to enhance returns, this is a versatile and useful risk-adjusted measure of actively-managed fund performance. It is calculated by deducting the returns of the fund's benchmark from the fund's overall returns, then dividing the result by its Tracking Error. In this way, we arrive at the value, per unit of extra risk assumed, that the manager's decisions have added to what the market would have delivered anyway.

Maximum Drawdown
Represents the worst possible return over a period, e.g. buying at the highest price over the period and selling at the lowest.

R-Squared
The R-Squared measure is an indication of how closely correlated a fund is to an index or a benchmark. It can be treated as a percentage, showing what proportion of a fund's movements can be attributed to those of the benchmark. Values for R-Squared range between 0 and 1, with 0 indicating no correlation at all, and 1, rarely, showing a perfect match.

Tracking Error
This statistic measures the standard deviation of a fund's excess returns over the returns of an index or benchmark portfolio. As such, it can be an indication of "riskiness" in the manager's investment style. A Tracking Error below 2 suggests a passive approach, with a close fit between the fund and its benchmark. At 3 and above the correlation is progressively looser: the manager will be deploying a more active investment style, and taking bigger positions away from the benchmark's composition.

Volatility
Standard deviation is a statistical measurement which, when applied to an investment fund, expresses its volatility, or risk. It shows how widely a range of returns varied from the fund's average return over a particular period. Low volatility reduces the risk of buying into an investment in the upper range of its deviation cycle, then seeing its value head towards the lower extreme.

GUINNESS
FUNDS
Guinness Asset Management Ltd is authorised and regulated by the Financial Conduct Authority

Tel: +44 (0) 20 7222 5703
Email: info@guinnessfunds.com
Web: guinnessfunds.com